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PAGE 01 SEOUL 09534 01 OF 02 030312Z

70

ACTION EA-09

INFO OCT-01 IO-13 ISO-00 AGR-05 SP-02 USIA-06 AID-05 EB-07

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LAB-04 SIL-01 H-02 L-03 PA-01 PRS-01 AF-08 ARA-06

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TO SECSTATE WASHDC 0819

INFO AMEMBASSY TOKYO

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USMISSION GENEVA

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LIMITED OFFICIAL USE SECTION 1 OF 2 SEOUL 9534

HONG KONG FOR REGIONAL FINANCIAL ATTACHE

E.O. 11652: N/A

TAGS: EFIN ETRD MTN GATT

SUBJ: TENTATIVE KOREAN DATA SHOW CURRENT ACCOUNT SURPLUS FOR 3RD
QUARTER: KOREAN ACCESS TO FOREIGN CAPITAL MARKETS EXPANDS

REF: SEOUL 9011

SUMMARY: TENTATIVE, AND AS YET UNRELEASED, DATA ON THIRD QUARTER
KOREAN BALANCE OF PAYMENTS SHOW A \$92 MILLION CURRENT ACCOUNT
SURPLUS FOR THE QUARTER. IF ACCURATE, THESE FIGURES SUGGEST THAT
THE FULL YEAR DEFICIT WILL BE DOWN TO \$200 MILLION OR LESS, WITH
A SMALL SURPLUS FOR THE SECOND HALF. AN INFORMAL MINISTRY OF
FINANCE (MOF) ESTIMATE REPORTEDLY PROJECTS GROSS FX RESERVES
REACHING \$2.9 BILLION THIS YEAR AND \$4.2 BILLION BY THE END OF
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PAGE 02 SEOUL 09534 01 OF 02 030312Z

NEXT YEAR IF CURRENT POLICIES ARE CONTINUED.

KOREA CONTINUES TO TRY TO DIVERSIFY ITS CAPITAL INSTRUMENTS AND MARKETS AS EVIDENCED BY RECENT AND UPCOMING MARKETINGS OF BONDS AND CERTIFICATES OF DEPOSIT. AN INFLUENTIAL MOF SOURCE SPECULATES THAT AS THE EVENTUAL SHIFT TO COMPLETE DEPENDENCE ON COMMERCIAL MARKETS FOR FINANCING OCCURS, KOREA WILL GRADUALLY MOVE AWAY FROM SUPPLIER CREDITS TOWARDS RAISING THE BULK OF THE FINANCING THROUGH ABOUT TEN OR SO MAJOR SYNDICATIONS A YEAR. THE SAME SOURCE, HOWEVER, CONTENDS THAT THE SITUATION IS STILL TOO UNCERTAIN TO COMMIT THE ROKG TO A FIRM PLAN FOR IMPORT LIBERALIZATION, CONSIDERATION OF WHICH WE HAVE BEEN URGING AT EVERY OPPORTUNITY. NINE MONTH FIGURES SHOW KOREA RUNNING A TRADE SURPLUS WITH THE U.S. OF OVER \$600 MILLION, A MATTER WHICH HAS BEEN RAISED BY AMBASSADOR SNEIDER WITH DPM NAM AS PART OF A BROADER DISCUSSION OF TRADE LIBERALIZATION. END SUMMARY.

1. WE HAVE LEARNED THAT TENTATIVE BANK OF KOREA (BOK) DATA ON THIRD QUARTER BALANCE OF PAYMENTS SHOW A SURPLUS ON CURRENT ACCOUNT FOR THE QUARTER OF \$92 MILLION, REDUCING THE PRELIMINARY DEFICIT FOR THE FIRST NINE MONTHS TO \$200 MILLION. THE RESULTS ARE CONSIDERED SO STARTLING THAT THE ROKG IS HOLDING UP PUBLIC RELEASE UNTIL THE DATA CAN BE RECHECKED. THE DATA WE HAVE OBTAINED SO FAR ARE LIMITED TO THE CURRENT ACCOUNT AS FOLLOWS:

	(\$ MILLIONS)		
	1ST HALF	3RD QTR	JAN-SEPT.
1. TRADE BALANCE	-234	89	-146
A. EXPORTS, FOB	3,462	2,117	5,579
B. IMPORTS, FOB	3,697	2,028	5,725
2. NET SERVICES AND			
TRANSFERS	-57	3	-54
3. CURRENT ACCOUNT	-292	92	-200

2. IN DISCUSSING THESE FIGURES, CHUNG IN-YONG, DIRECTOR OF THE INTERNATIONAL FINANCE BUREAU, MINISTRY OF FINANCE (MOF), TOLD EMBOFF THAT IF THIRD QUARTER DATA ARE CORRECT, HE ANTICIPATES NO WORSE THAN A BALANCE ON CURRENT ACCOUNT FOR THE FINAL QUARTER, MEANING A FULL YEAR DEFICIT OF NO MORE THAN \$200 MILLION.

3. IT SHOULD BE KEPT IN MIND THESE ARE PRELIMINARY FIGURES.
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PAGE 03 SEOUL 09534 01 OF 02 030312Z

FIRST HALF ACCOUNTING INCLUDED A NEGATIVE ERRORS AND OMISSIONS ENTRY OF \$141 MILLION (WE DO NOT HAVE THE JAN-SEPT FIGURE AS YET). WE UNDERSTAND THE MAGNITUDE OF THIS ENTRY IS PARTIALLY ATTRIBUTABLE TO THE FACT THAT CASH (KFX) DEFENSE IMPORTS ARE NOT INCLUDED IN THE IMPORT TOTAL. THEY MAY EVENTUALLY BE HIDDEN IN REVISED TOTALS. FOREIGN MILITARY SALES (FMS)-FINANCED DEFENSE TRANSACTIONS, MOREOVER, HAVE NOT YET BEEN ADDED TO EITHER THE CURRENT ACCOUNT OR THE CAPITAL ACCOUNT. ONE INFORMAL ESTIMATE

SUGGESTS THEY MAY BE ON THE ORDER OF \$180 MILLION FOR THE YEAR. FINALLY, THE BOK HAS MADE A MAJOR ADJUSTMENT IN PRELIMINARY THIRD QUARTER CUSTOMS IMPORT DATA BY EXCLUDING OVER \$200 MILLION ON THE GROUNDS THESE ARE THE VALUE OF CONTRACTS FOR SHIP CHARTERS, NOT ACTUAL PAYMENTS FOR IMPORTS. THIS IS PROBABLY A LEGITIMATE EXCLUSION, AND SIMILAR EXCLUSIONS HAVE BEEN MADE BEFORE, BUT IT IS THE TYPE OF ACTION THAT COULD BE REVERSED OR MODIFIED BEFORE THE DATA ARE CONSIDERED FINAL.

4. EVEN WITH THOSE QUALIFYING COMMENTS, THESE DATA REFLECT A TRULY REMARKABLE RECOVERY FOR KOREA'S BALANCE OF PAYMENTS POSITION FROM THE ROUGHLY \$2 BILLION PER YEAR CURRENT ACCOUNT DEFICITS OF 1974 AND 1975. CHUNG, WHO NOW EXPECTS 1976 END-YEAR GROSS FOREIGN EXCHANGE RESERVES OF \$2.9 BILLION, MENTIONED THAT A RECENT MOF FORECASTING EXERCISE PROJECTED END-1977 FX RESERVES OF \$4.2 BILLION, ASSUMING THAT CURRENT TRENDS CONTINUE AND THAT THERE IS NO SHIFT IN ROKG POLICIES. HE QUICKLY ADDED THAT TENTATIVE MOF REACTION WAS THAT POLICIES SHOULD BE MODIFIED TO HOLD RESERVES UNDER \$4 BILLION IN THAT EVENT. THAT EXERCISE ASSUMED A 1977 CURRENT ACCOUNT DEFICIT OF ABOUT \$480 MILLION, WITH COMMODITY EXPORTS OF 9.7 BILLION AND COMMODITY IMPORTS, F.O.B., OF JUST OVER \$10 BILLION. WE CONSIDER THOSE ASSUMPTIONS REALISTIC, AND CONSERVATIVE IF THE INTERNATIONAL ECONOMIC RECOVERY BEGINS TO PICK UP SPEED AGAIN.

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PAGE 01 SEOUL 09534 02 OF 02 030343Z

70

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LIMITED OFFICIAL USE SECTION 2 OF 2 SEOUL 9534

HONG KONG FOR REGIONAL FINANCIAL ATTACHE

5. CHUNG WENT ON TO CITE HIGHLIGHTS OF THE ONGOING EVOLUTION OF KOREA'S RELATIONSHIPS WITH INTERNATIONAL CAPITAL MARKETS. ITEMIZING RECENT AND UPCOMING "FIRSTS" FOR KOREA, HE MENTIONED:

1) A \$23.8 MILLION BOND ISSUE DENOMINATED IN KUWAITI DINARS WHICH IS LISTED ON THE LONDON MARKET, THE FIRST SUCH LISTING OF KOREAN BONDS AND THE FIRST PUBLIC FLOTATION (THERE HAVE BEEN THREE EARLIER PRIVATE PLACEMENTS WITH CURRENCY AUTHORITIES OF THE UNITED ARAB EMIRATES);

2) A \$25 MILLION BOND ISSUE NOW PROCEEDING IN THE SINGAPORE MARKET, THE FIRST IN THAT MARKET; AND

3) PLANS FOR A \$25 MILLION FLOTATION IN THE EUROBOND MARKET IN LIMITED OFFICIAL USE

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PAGE 02 SEOUL 09534 02 OF 02 030343Z

JANUARY. ALL OF THE ABOVE ARE KOREA DEVELOPMENT BANK (KDB) BONDS WITH MATURITIES OF 3 TO 5 YEARS. CHUNG ADDED THAT THE FIRST BOSTON CORPORATION IS WORKING OUT DETAILS WITH THE KOREA ELECTRIC CO. (KECO) FOR U.S. EXPORT-IMPORT BANK GUARANTEED BONDS AS PART OF THE FINANCING FOR THE KORI II NUCLEAR POWER PLANT, FOLLOWING THE PATTERN RECENTLY PIONEERED IN THE PHILIPPINES. IN STILL ANOTHER FIRST, THE KOREA EXCHANGE BANK (KEB) HAS JUST MARKETING \$10 MILLION IN CERTIFICATES OF DEPOSIT (CD'S) IN LONDON (PRESS REPORTS INDICATE THE CD'S WERE SOLD OUT AS OF NOVEMBER 22). A BANK-TO-BANK CASH LOAN SYNDICATION FOR \$100 MILLION, MANAGED BY THE FNCB-RELATED ASIAN PACIFIC CAPITAL CORPORATION AND DUE TO BE SIGNED DECEMBER 9, IS ALSO A FIRST IN THAT IT INVOLVES A SYNDICATE OF KOREAN BANKS AS BORROWERS, RATHER THAN A SINGLE BORROWER. THIS WILL BE THE YEAR'S SECOND BANK-TO-BANK SYNDICATION (THE INITIAL ONE WAS THE BANKERS TRUST-LED SYNDICATION FOR \$80 MILLION CONCLUDED IN JUNE).

6. CHUNG CHARACTERIZED THESE DEVELOPMENTS AS BUILDING THE FOUNDATION FOR KOREA'S EVENTUAL COMPLETE DEPENDENCE ON COMMERCIAL SOURCES OF FINANCING AS THE TIME COMES FOR PHASING OUT CONCESSIONAL FINANCING FROM OFFICIAL SOURCES. HE STRESSED THAT THE TOTAL AMOUNT OF MONEY INVOLVED IN THE KDB BONDS AND KEB CD'S IS QUITE MODEST AND SAID HE DOES NOT ANTICIPATE THAT THESE CATEGORIES OF FINANCING WILL EVER BE A MAJOR SOURCE OF FUNDS. HOWEVER, HE CONSIDERED THEM

IMPORTANT IN TERMS OF DIVERSIFYING KOREA'S ACCESS TO CAPITAL MARKETS AND POINTED OUT THAT THE PRESTIGE ATTACHED TO BEING ABLE TO SUCCESSFULLY MARKET SUCH INSTRUMENTS ENHANCES KOREA'S OVERALL STANDING IN THE FINANCIAL COMMUNITY. LOOKING TOWARDS THE TIME WHEN, AS HE SEES IT, KOREA WILL HAVE TO RAISE \$2 BILLION ANNUALLY IN COMMERCIAL MARKETS, HE SPECULATED THAT THE BULK OF IT WOULD BE OBTAINED IN ABOUT TEN COORDINATED SYNDICATIONS A YEAR, INVOLVING BOTH KOREAN BANKS AND MAJOR KOREAN CORPORATIONS, WITH FINANCING FOR SMALLER PROJECTS HANDLED LARGELY THROUGH DIRECT LOANS ARRANGED BY RESIDENT FOREIGN BANKS. AS PART OF THIS PROCESS, HE FORESEES KOREAN MOVING AWAY FROM "SUPPLIER CREDITS" TIED TO SPECIFIC IMPORTS AND PROJECTS TOWARDS "BUYER CREDITS" WHERE KOREAN BANKS AND FIRMS RAISE THEIR OWN FINANCING. (IN THE MEANTIME, NEW COMMITMENTS FOR PUBLIC AND COMMERCIAL LOANS--NORMALLY THE LATTER CATEGORY IS MOSTLY SUPPLIER CREDITS--ARE UP STEEPLY IN 1976. NEW COMMITMENTS THROUGH OCTOBER TOTAL \$2.4 BILLION OF WHICH \$1.4 BILLION ARE COMMERCIAL LOANS, AS COMPARED TO \$1.2 BILLION IN TOTAL COMMITMENTS LIMITED OFFICIAL USE

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PAGE 03 SEOUL 09534 02 OF 02 030343Z

FOR ALL OF 1975, OF WHICH \$424 MILLION WERE COMMERCIAL LOANS. THESE CATEGORIES EXCLUDE THE BANK-TO-BANK CASH LOANS, KDB BONDS, ETC., DISCUSSED IN PREVIOUS PARAGRAPHS).

7. RESPONDING TO EMBOFF'S QUERY, CHUNG CONCEDED THAT, IF THE CURRENT ACCOUNT DEFICIT IS CLOSED, THE FUNDING OF DEBT REPAYMENT ALONE WOULD NOT REQUIRE GROSS NEW FINANCING OF THE MAGNITUDE HE HAD IN MIND, BUT HE THOUGHT IT VERY PROBABLE THAT THE ROKG WOULD ADJUST ITS POLICIES TO RUN A CURRENT ACCOUNT DEFICIT FOR SOME TIME YET SHOULD TRENDS SUGGEST THAT THE CURRENT ACCOUNT SURPLUS IS MORE THAN A TEMPORARY PHENOMENON. WHEN EMBOFF COUNTERED THAT THESE CIRCUMSTANCES CLEARLY SUGGEST THE NEED FOR EARLY ACTION ON IMPORT LIBERALIZATION, BOTH ON THE GROUNDS OF OPTIMAL ECONOMIC POLICIES FOR KOREA AS WELL AS EQUITY FOR KOREA'S TRADING PARTNERS, CHUNG, WHILE CONCEDED THAT IMPORT LIBERALIZATION MUST EVENTUALLY BE CONSIDERED, CONTENDED THAT IT IS TOO EARLY TO SHIFT GEARS AS YET. POINTING TO RECENT TRENDS WHICH SHOW EXPORT L/C ARRIVALS STABILIZING WHILE IMPORT LICENSING TOTALS ARE RISING (SEE REFTEL), HE ARGUED THAT THESE INDICATORS PLUS NORMAL SEASONAL FACTORS POINT TO A CURRENT ACCOUNT DEFICIT OPENING UP AGAIN IN NEXT YEAR'S FIRST QUARTER. HE SAID IT IS MOF'S VIEW THAT THE ROKG SHOULD WAIT UNTIL FIRST QUARTER DATA ARE AVAILABLE NEXT SPRING BEFORE MAKING ANY MAJOR POLICY CHANGES.

8. COMMENT: CHUNG'S COMMENTS WERE MADE IN AN INFORMAL CONVERSATIONAL SETTING AND SHOULD BE INTERPRETED MORE AS HIS PERSONAL COMMENTS THAN AS STATEMENTS OF OFFICIALLY ENDORSED POLICY OF THE ROKG OR EVEN MOF.

HOWEVER, CHUNG'S INFLUENCE IN MOF IS CONSIDERABLE.

9. THE ALMOST TOTAL DIVORCE FROM SUPPLIER CREDITS HE DESCRIBED SEEMS UNREALISTIC. FURTHERMORE, THE SCHEME IGNORES THE FACT THAT MATURITIES ON BANK SYNDICATIONS ARE RELATIVELY SHORT. KOREA'S RECENT BANK-TO-BANK SYNDICATIONS ARE FIVE YEAR MATURITIES (INCLUDING THE GRACE PERIOD) AND THE BEST THEY OBTAINED IN THE BUYERS MARKET OF LATE 1973 WAS 10 YEARS. CONSIDERING CHUNG'S VIEWS, HOWEVER, WE ANTICIPATE THAT KOREA WILL, AT A LIMITED OFFICIAL USE

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PAGE 04 SEOUL 09534 02 OF 02 030343Z

MINIMUM, SEEK TO MAKE GREATER USE OF BANK CASH SYNDICATIONS IN THE FUTURE.

10. CHUNG'S CONTENTION THAT KOREA'S BALANCE OF PAYMENTS SITUATION IS STILL TOO FLUID TO MAKE RELIABLE LONGER TERM PROJECTIONS HAS SOME VALIDITY. THE POTENTIAL IMPACT OF THE TONGSUN PARK AFFAIR AND RELATED ISSUES ON ATTITUDES TOWARDS THE ROKG, MOREOVER, ADDS FURTHER UNCERTAINTY, AS DOES THE LIKLIHOOD OF ADVERSE EFFECTS ON THE WORLD ECONOMY OF PROPOSED OPEC OIL PRICE HIKES. HOWEVER, THE CASE FOR MOVING SOONER RATHER THAN LATER ON IMPORT LIBERALIZATION HAS BEEN GROWING STRONGER EVERY MONTH, A POINT WHICH WE HAVE BEEN REITERATING TO ROKG OFFICIALS AT EVERY OPPORTUNITY.

11. OUR ARGUMENT AS CONCERNS U.S.-KOREAN TRADE IS BUTTRESSED BY THE LATEST ROKG CUSTOMS DATA WHICH SHOW JAN-SEPT KOREAN EXPORTS TO THE U.S. OF \$1,871, FOB, VERSUS IMPORTS FROM THE U.S. OF \$1,377 MILLION, CIF. IF ADJUSTMENT IS MADE TO EXCLUDE FREIGHT AND INSURANCE OF ROUGHLY 10 PERCENT FROM THE IMPORT TOTAL, THE NINE MONTH TRADE DEFICIT, EXCLUDING DEFENSE IMPORTS, IS ABOUT \$360 MILLION. WE HAVE POINTED THIS OUT TO SEVERAL KOREAN OFFICIALS WHOSE REACTION IS REPORTED BY SEPTEL.
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